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December 9, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

EX PARTE

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: CC Docket No. 94-1, Price Cap Performance Review for Local Exchange Carriers

Today, Mark Roberts, Analyst, Alex Brown & Sons, Inc. and I met with Richard Welch of Commissioner Chong's office, and Lauren Belvin of Commissioner Quello's office to discuss issues contained in the attached document which was used during the meetings. Please associate this material with the above-referenced proceeding.

Although Pacific Bell facilitated these meetings between Mr. Roberts and the Commission staff, Mr. Roberts' views are his own. They do not represent the views of Pacific Bell.

We are submitting two copies of this notice in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

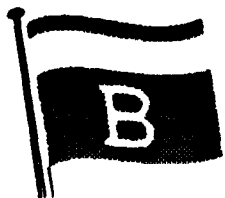


Attachment

cc: Richard Welch
Lauren Belvin

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**FCC OVERVIEW OF PRICE/SERVICE-BASED
VERSUS
INVESTMENT-BASED REGULATION**

DECEMBER 9, 1994

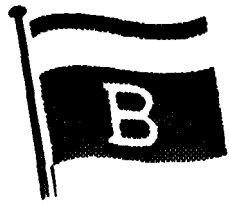
**MARK A. ROBERTS, CPA, CFA
SENIOR ANALYST**

ALEX. BROWN & SONS

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**

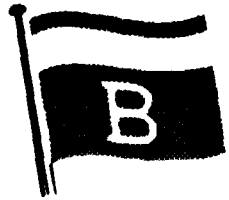
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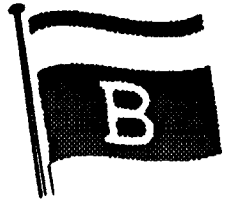
PRICE/SERVICE-BASED REGULATION SETS A PRICE CEILING FOR A PARTICULAR SERVICE AND MINIMUM SERVICE STANDARDS THAT APPLY TO ALL SERVICE PROVIDERS

- **No Investment Basis is Considered**
- **Prices Can Only Go Down Once Set -- No Rebalancing**
- **Natural and Simple Weapon Against Predatory Pricing**



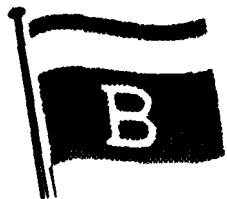
WALL STREET WILL NO LONGER PAY FOR THE CERTAINTY OF INVESTMENT-BASED REGULATION

- **Investment-Based Regulation is Obsolete**
- **Regulatory Accounting is a Chimera**
- **Depreciation and Amortization is Taken Out of Valuation Measurement**
- **Prospect of Recovering Past Investment is a Major Uncertainty**
- **Risk is Rising and so will the Cost of Capital**



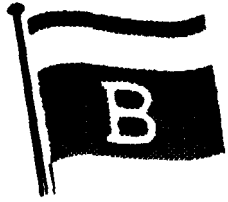
PRICE/SERVICE-BASED REGULATION WILL STIMULATE NEW INVESTMENT IN-REGION

- **Rate Payers Benefit Most when Investment is Made to Upgrade Existing Networks**
- **Telcos in Highly Regulated States Tend to Invest a Higher Percentage of Capital Out-of-Region**
- **Threat of Competition is the Lynchpin of a Successful Price/Service-Based Regulation Policy**



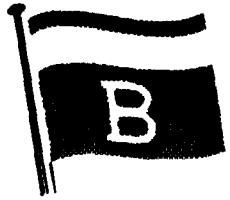
INVESTMENT BASED REGULATION IS OBSOLETE

- **New Networks are Capable of Blending Voice, Video, Data and Wireless Mobility -- and this Trend is Accelerating**
- **New Networks and Competitors are Capable of Cannibalizing Traditional Businesses Regardless of Regulation**
- **Cost Allocation will Become Increasingly Difficult -- As if it isn't Already**



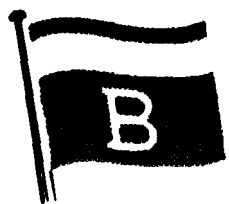
REGULATORY ACCOUNTING IS A CHIMERA

- **In Other Industries that Became Competitive, Regulatory Accounting Lost All Meaning**
 - **Airlines**
 - **Trucking**
 - **Railroads**
- **What is the Residential Subsidy?**
- **In a Fixed Cost Industry -- Allocation Loses all Meaning in the Face of Competition**



VALUATION OF TELECO'S GOING FORWARD

- **EBITDA Multiple and EBITDA Margin**
- **Revenue Growth Rate**
- **Level of Future CapEx Expectations**
- **Any Measure that Involves Depreciation and Amortization is Moot**
 - **They are Sunk Costs**
 - **Technology and Competition Make Useful Lives an Uncertainty**
 - **Competition Makes Required CapEx Irrelevant**



THE BOTTOM LINE

**PRICE/SERVICE-BASED REGULATION WOULD
HAND REGULATORS THE SAME RULER THAT
THE COMPANIES AND THE FINANCIAL
MARKETS ARE ALREADY USING TO MEASURE
SUCCESS IN THE LOCAL LOOP!**